COMMONWEALTH PORTS AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2011

COMMONWEALTH PORTS AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2011 (pages 35 through 37) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. This supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLC

June 27, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED SEPTEMBER 30, 2011

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's activities and financial performance during the fiscal year ended September 30, 2011, with selected comparative information for the fiscal years ended September 30, 2010 and 2009. Please read it in conjunction with the more detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC has issued an unqualified audit opinion.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Mariana Islands (the CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors appointed by the Governor to serve four-year terms governs CPA. CPA is a self-supporting organization and generates revenues from port users to fund operating expenses and debt service requirements.

CPA is tasked with the responsibility to operate, maintain and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist on the islands of Saipan, Tinian and Rota with 136 employees on Saipan, 24 employees on Rota and 28 employees on Tinian.

The notes to the financial statements are essential to fully understand the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt compliance during the year, including commitments made for capital expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

CPA's financial transactions and subsequent statements are prepared in accordance with accounting principles generally accepted in the United States of America and standards mandated by the Governmental Accounting Standards Board, as applicable to governmental entities.

CPA operates on the accrual basis of accounting wherein revenues are recognized when earned, not when received, and expenses are recorded when incurred, not when paid. Capital assets, except for land, are capitalized and depreciated over their useful lives. Further information is provided in the notes to the accompanying audited financial statements.

The financial statements of this annual report consist of three parts: the MD&A, the basic financial statements and the notes to the financial statements. The basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Statement of Net Assets presents information on all of CPA's assets and liabilities, with the difference between the two reported as net assets. Net assets consist of restricted net assets, unrestricted net assets and net assets invested in capital assets, net of related debt.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows in future periods.

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P.O. BOX 561, Rota, MP 96951

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Tinian Harbor
P.O. BOX 235, Tinian, MP 96952

The Statement of Cash Flows presents information related to CPA's cash receipts and cash payments during the fiscal year and its ability to generate net cash flows and meet its obligations as they become due and its needs for external financing.

FINANCIAL HIGHLIGHTS

Total assets for the airport and seaport operations combined decreased by 2.2% or $4,937,600 from $229,563,519 in FY2010 to $224,625,919 in FY2011.

Net assets for the airport and seaport operations combined increased by less than 1% or $105,093 from $164,424,605 in FY2010 to $164,529,698 in FY2011. Net assets represent the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined decreased by 1.4% or $241,485 from $17,469,307 in FY2010 to $17,227,822 in FY2011. Operating revenues for the Airport Division decreased by less than 1% or $44,849 from $10,919,929 in FY2010 to $10,875,080 in FY2011. Operating revenues for the Seaport Division decreased by 3.0% or $196,636 from $6,549,378 in FY2010 to $6,352,742 in FY2011.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined decreased by 8.2% or $980,578 from $12,930,350 in FY2010 to $11,949,772 in FY2011, due to lowered salaries and wages, employee benefits, and strict control of operating expenses.

The Airport Division aviation revenue declined in 2011 by $319,738 due to declining airport traffic. Thus, quarterly monitoring procedures were put into effect in order to adopt austerity measures for personnel and employee benefits, as needed. CPA expects to be in compliance with the Agreement for FY2011.

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was performed due to the departure of the garment industry and the drastic decline in port revenue tons. It was through this effort that revenues increased in order to be in compliance with the Bond Indenture Agreement for 2009 and thereafter. The Seaport Division seaport fees declined in 2011 by $166,159 due to a reduction in gross revenue tons. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2011. CPA expects the Seaport Division to be in compliance with the Agreement for FY2012.

Combined Statements of Net Assets, Statements of Revenues, Expenses and Changes in Nets Assets and Statements of Cash Flows as of and for the year ended September 30, 2011 follows, with comparative information as of and for the years ended September 30, 2010 and 2009:

Statements of Net Assets

Assets	**2011**	**2010**	**2009**
Current assets:			
Cash	$ 7,415,151	$ 5,678,533	$ 3,323,417
Receivables	5,864,159	10,156,186	8,570,427
Prepaid expenses	127,103	75,321	85,312
Investments, restricted for debt service and other purposes	16,575,666	15,394,649	16,006,012
Total current assets	**29,982,079**	**31,304,689**	**27,985,168**
Noncurrent assets:			
Deferred bond issue costs	1,260,492	1,327,427	1,394,362
Receivable from related party, net	678,641	1,691,084	2,642,340
Capital assets, net	192,704,707	195,240,319	191,454,993
Total noncurrent assets	**194,643,840**	**198,258,830**	**195,491,695**
	$ 224,625,919	**$ 229,563,519**	**$ 223,476,863**

Statements of Net Assets, Continued

	2011	2010	2009
Liabilities and Net Assets			
Current liabilities:			
Revenue bonds payable, current portion	$ 1,580,000	$ 1,485,000	$ 1,395,000
Note payable to related party, current portion	240,110	236,814	87,640
Contractors payable	2,895,754	6,260,342	3,391,103
Trade and other payables	71,536	331,800	199,637
Due to related parties	1,838,963	1,743,912	1,884,561
Accrued expenses	2,584,947	2,436,667	2,289,296
Deferred income	20,926	20,601	-
Compensated absences, current portion	250,379	213,228	279,092
Total current liabilities	**9,482,615**	**12,728,364**	**9,526,329**
Accrued interest payable	546,679	546,679	450,085
Compensated absences, net of current portion	310,352	333,123	233,796
Revenue bonds payable, net of current portion	44,509,954	46,046,522	47,488,090
Notes payable to related party, net of current portion	5,246,621	5,484,226	5,715,970
Total liabilities	**60,096,221**	**65,138,914**	**63,414,270**
Net assets:			
Invested in capital assets, net of related debt	141,128,022	141,987,757	136,768,293
Restricted	16,575,666	15,394,649	16,006,012
Unrestricted	6,826,010	7,042,199	7,288,288
Total net assets	**164,529,698**	**164,424,605**	**160,062,593**
	$ 224,625,919	**$ 229,563,519**	**$ 223,476,863**

Statements of Revenues, Expenses and Changes in Net Assets

	2011	2010	2009
Operating revenues:			
Aviation fees	$ 5,860,195	$ 6,179,933	$ 6,501,451
Concession and lease income	4,739,038	4,707,191	4,646,384
Seaport fees	4,678,482	4,844,641	4,420,940
Other	1,950,107	1,737,542	1,823,011
	17,227,822	17,469,307	17,391,786
Less bad debts	(877,904)	(623,954)	(14,291)
Operating revenues, net	**16,349,918**	**16,845,353**	**17,377,495**
Operating expenses:			
Depreciation and amortization	11,405,674	11,675,296	11,479,589
Salaries and wages	5,162,621	5,633,462	5,157,000
Employee benefits	1,596,913	1,649,529	1,657,597
Insurance	1,446,929	1,623,922	1,630,022
Contractual services	882,194	1,446,401	981,942
Utilities	960,430	787,129	797,892
Repairs and maintenance	347,154	303,071	469,686
Supplies	222,821	448,214	404,144
Professional fees	286,149	222,816	268,399
Travel	73,313	72,585	58,287
Training	193,640	54,445	42,317
Promotion and advertising	44,081	36,632	36,481
Other	733,527	652,144	880,783
Total operating expenses	**23,355,446**	**24,605,646**	**23,864,139**
Operating loss	**(7,005,528)**	**(7,760,293)**	**(6,486,644)**

Statements of Revenues, Expenses and Changes in Net Assets, Continued

	2011	2010	2009
Non-operating revenues (expenses):			
Passenger facility charges	1,412,330	1,558,602	1,742,877
Other grant revenue and contributions	1,661,491	4,612,402	601,875
Interest income	498,247	528,382	558,214
Stand-by costs	(1,438,724)	(4,469,631)	-
Interest expense	(3,244,589)	(3,485,643)	(3,462,247)
Other expense	-	(176,490)	-
Amortization of bond issue costs	(66,935)	(66,935)	(66,935)
Total non-operating revenues (expenses), net	**(1,178,180)**	**(1,499,313)**	**(626,216)**
Loss before capital contributions	**(8,183,708)**	**(9,259,606)**	**(7,112,860)**
Capital contributions	8,288,801	13,621,618	11,124,807
Changes in net assets	**105,093**	**4,362,012**	**4,011,947**
Net assets at beginning of year	164,424,605	160,062,593	156,050,646
Net assets at end of year	**$ 164,529,698**	**$ 164,424,605**	**$ 160,062,593**

Statements of Cash Flows

	2011	2010	2009
Cash flows from operating activities:			
Cash received from customers	$ 17,831,829	$ 18,866,580	$ 17,233,828
Cash payments to suppliers for goods and services	(6,583,025)	(10,669,869)	(6,640,176)
Cash payments to employees for services	(6,745,156)	(7,249,528)	(6,839,664)
Net cash provided by operating activities	**4,503,648**	**947,183**	**3,753,988**
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	1,661,491	4,612,402	601,875
Net cash provided by noncapital financing activity	**1,661,491**	**4,612,402**	**601,875**
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(12,234,650)	(12,591,383)	(12,345,667)
Capital and other contributions received	11,997,035	11,511,754	9,587,982
Passenger facility charge receipts	1,412,330	1,558,602	1,742,877
Principal paid on revenue bond maturities	(1,485,000)	(1,395,000)	(2,330,000)
Payments on note payable to related party	(234,309)	(82,570)	-
Interest paid on revenue bonds and notes payable to related party	(3,201,157)	(3,345,617)	(3,273,724)
Net cash used for capital and related financing activities	**(3,745,751)**	**(4,344,214)**	**(6,618,532)**
Cash flows from investing activities:			
Net change in restricted investments	(1,181,017)	611,363	1,116,933
Interest income	498,247	528,382	558,214
Net cash (used for) provided by investing activities	**(682,770)**	**1,139,745**	**1,675,147**
Net change in cash	**1,736,618**	**2,355,116**	**(587,522)**
Cash at beginning of year	5,678,533	3,323,417	3,910,939
Cash at end of year	**$ 7,415,151**	**$ 5,678,533**	**$ 3,323,417**

CAPITAL ASSETS

At September 30, 2011, CPA had $192,704,707 invested in capital assets, net of depreciation where applicable, including land, runways, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net decrease of $2,535,612 or 1.3% reduction from last year.

CAPITAL ASSETS, CONTINUED

	2011	2010	2009
Runway and improvements	$ 96,125,110	$ 96,118,668	$ 92,032,286
Other improvements	26,559,106	26,129,646	25,396,866
Terminal facilities and equipment	104,541,286	104,238,578	103,920,048
Harbor facilities	63,635,195	63,635,195	63,626,755
Grounds maintenance and shop equipment	511,447	509,692	509,692
Fire and rescue equipment	11,527,325	11,521,619	11,521,619
Office furniture and fixtures	1,098,211	1,038,691	997,181
General transportation	1,091,876	1,047,265	1,044,811
Other	2,394,909	2,394,909	2,394,591
	307,484,465	306,634,263	301,443,849
Less accumulated depreciation	(162,085,899)	(150,680,225)	(139,026,978)
Total capital assets being depreciated	145,398,566	155,954,038	162,416,871
Construction in progress	46,841,712	38,821,852	28,573,693
Land	464,429	464,429	464,429
Total capital assets, net	$ 192,704,707	$ 195,240,319	$ 191,454,993

Please refer to note 6 to the financial statements for additional information regarding CPA's capital asset activity.

RESTRICTED INVESTMENTS

Restricted investments for Airport and Seaport construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Airport			
Bond Reserve Fund	$ 1,575,062	$ 1,568,337	$ 1,561,455
Bond Fund	378,165	360,606	301,639
Maintenance and Operation	1,598,442	858,474	659,972
Revenue Fund	724	724	723
Optional Redemption Fund	12,100	12,100	12,087
	3,564,493	2,800,241	2,535,876
Seaport			
Bond Reserve Fund	3,479,616	3,479,556	3,480,131
Supplemental Reserve Fund	8,034,239	8,034,239	8,037,480
Reimbursement Fund	5,807	5,807	5,806
Bond Fund	712,475	682,368	648,748
Maintenance and Operation	771,047	382,751	756,957
Construction Fund	7,178	8,876	540,204
Reserve Fund	811	811	810
	13,011,173	12,594,408	13,470,136
Total	**$ 16,575,666**	**$ 15,394,649**	**$ 16,006,012**

Please refer to note 3 to the financial statements for additional information regarding CPA's restricted investments.

LONG-TERM DEBT

1998 Airport Revenue Bonds

On March 26, 1998, CPA issued a 1998 Series A $20,050,000 tax-exempt revenue bond. Interest is 6.25%, payable on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2028.

LONG-TERM DEBT, CONTINUED

1998 Airport Revenue Bonds, Continued

Payments for the Airport bond are current. The current portion of the Airport bond principal is $505,000. The long-term portion of the bond balance as of September 30, 2011 is $13,955,000.

This 1998 bond was partially used to refund an outstanding $8,250,000 1987 Series B tax-exempt bonds. The bond refunding consolidated the existing bonds with new bonds to finance various airport projects and to reduce total future debt service payments through lower interest rates. The reacquisition price exceeded the net carrying amount of the old debt by $503,906 which was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments.

1998 Seaport Revenue Bonds

On March 26, 1998, CPA issued a 1998 Series A $33,775,000 tax-exempt revenue bond. Interest is 6.6% payable on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2031.

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $890,000. The long-term portion of the bond balance as of September 30, 2011 is $25,170,000.

The Seaport bond proceeds were partially used for a current refunding of $22,470,000 1995 Series A tax-exempt seaport revenue bonds. The refunding consolidated existing debt with new debt issued to finance various seaport projects and to reduce total debt service payments in the future. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593 which was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments.

2005 Seaport Revenue Bonds

On September 21, 2005, CPA issued another Senior Series A tax-exempt revenue bond in the amount of $7,225,000 for the primary purpose of financing the paving of the container yard area of the seaport. Pursuant to Section 2.04 (A)(9) of the 1998 Senior Series A Seaport Revenue Bond Indenture Agreement, CPA entered into a Second Supplemental Indenture for the bonds at an interest rate of 5.5% payable on March 15 and September 15 of each year. Payments commenced on March 15, 2008.

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $185,000. The long-term portion of the bond balance as of September 30, 2011 is $6,395,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2011, CPA has a promissory note of $5,486,731 due to CDA (a component unit of the CNMI), with interest at 2.5% per annum and a maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements. The current portion of the note is $240,110. The long-term portion of the note as of September 30, 2011 is $5,246,621. The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

LONG-TERM DEBT, CONTINUED

A summary of CPA's long-term debt balances as of September 30, 2011, 2010 and 2009 is as follows:

	2011	2010	2009
1998 Senior Series A Bonds - Airport	$ 14,460,000	$ 14,930,000	$ 15,375,000
1998 Senior Series A Bonds - Seaport	$ 26,060,000	$ 26,900,000	$ 27,685,000
2005 Senior Series A Bonds - Seaport	$ 6,580,000	$ 6,755,000	$ 6,920,000
Note payable to CDA	$ 5,486,731	$ 5,721,040	$ 5,803,610

Please refer to notes 7 and 8 to the financial statements for additional information regarding CPA's long-term debt.

REVENUE AND EXPENSE ANALYSIS

Airport and Seaport Combined Operating Revenues

	2011	2010	2009
Airport	$ 10,875,080	$ 10,919,929	$ 11,129,243
Seaport	6,352,742	6,549,378	6,262,543
	$ 17,227,822	$ 17,469,307	$ 17,391,786

The Airport and Seaport Divisions have been experiencing a declining revenue trend in recent years due to the reduction of their revenue generating base. For the Airport, the traffic has been declining due to the loss of signatory airlines (Continental Airlines and Japan Airlines) being replaced with airlines operating charter flights on an as-needed basis. The loss of revenue-generating traffic has a negative effect on the non-aviation revenue as the concessionaires lose revenue causing a decline in the percentage rent to CPA. Likewise, with the departure of the garment industry, the Seaport gross revenue tons have declined causing a permanent loss of this important revenue base.

To deal with these trends, the Board of Directors increased fees for the Airport in June 2008 and the tariff for the Seaport in March 2009. This had a major impact on stabilizing each Division's revenues for 2011 and allowing for future revenue growth. This has allowed the Seaports to achieve compliance with a reasonable excess to mitigate unanticipated, but necessary, costs. However, the effect was not as great at the Airports. This was due to the declining arrivals from Japan and Korea and the fact that the scheduled airlines have been cutting their seat capacity and suspending flights during slow periods of the year. However, management did not believe that another increase in fees was appropriate due to the already "soft" and elastic nature of the travel market. Accordingly, CPA implemented strict austerity measures for 2011 to reduce operating expenses. Additionally, an independent consultant was hired to monitor the 2010, 2011 and 2012 revenues and expenses in order to make adjustments as needed to comply with the Airport bond indenture.

Airport and Seaport Combined Operating Expenses

	2011	2010	2009
Airport			
Personnel expense	$ 5,850,938	$ 6,522,361	$ 6,139,107
Maintenance and operations expense	3,960,288	4,291,192	4,183,403
	9,811,226	10,813,553	10,322,510
Seaport			
Personnel expense	908,596	760,630	675,490
Maintenance and operations expense	1,229,950	1,356,167	1,386,550
	2,138,546	2,116,797	2,062,040
Combined operating expenses	**$ 11,949,772**	**$ 12,930,350**	**$ 12,384,550**

FY2011 BOND INDENTURE COMPLIANCE

FY2011 Bond/Debt Ratio Noncompliance

	Airport			Seaport		
	2011	**2010**	**2009**	**2011**	**2010**	**2009**
Required revenues for bond compliance	$ 12,367,504	$ 12,667,624	$ 12,188,947	$ 6,050,286	$ 6,535,929	$ 6,170,156
Actual revenues collected:						
Revenues and other income	10,875,080	10,919,929	11,129,243	6,352,742	6,549,378	6,262,543
Other grant revenue and contributions	252,309	240,760	601,875	-	-	-
Interest income	235,341	262,274	294,046	262,906	266,108	264,168
Passenger facility charge	1,412,330	1,558,602	445,439	-	-	-
	12,775,060	12,981,565	12,470,603	6,615,648	6,815,486	6,526,711
Variance (noncompliance)	$ 407,556	$ 313,941	$ 281,656	$ 565,362	$ 279,557	$ 356,555

As illustrated in the above table, CPA was able to generate sufficient revenues for the Airport to meet its Bond Indenture requirements, but was primarily due to the FAA opinion allowing passenger facility charges to be considered revenues for this purpose. The Seaport was able to meet its bond compliance due the rate increase. As stated previously, revenues and expenses are being monitored on a quarterly basis so that steps can be taken to ensure that there is compliance. The results from this activity are being used to construct a realistic budget for FY2012. It is management's intention to control expenses in a comprehensive manner to ensure there is a proper relationship to operating revenues.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

Saipan	**Enplaned Passengers**	**Deplaned Passengers**	**Landing Weights**
FY 2009	418,296	425,982	737,391,020
FY 2010	429,401	422,542	712,173,491
FY 2011	404,652	388,030	685,246,274
Rota			
FY 2009	19,663	20,254	51,269,310
FY 2010	15,515	18,708	46,504,840
FY 2011	15,528	16,031	40,123,200
Tinian			
FY 2009	24,220	21,226	30,172,500
FY 2010	35,059	20,447	51,733,600
FY 2011	35,225	18,351	58,219,400
All Airports			
FY 2009	462,179	467,462	818,832,830
FY 2010	479,975	461,697	810,411,931
FY 2011	455,405	422,412	783,588,874

In FY2011, airport enplanement (air passenger departures) for all airports decreased by 5.2% and deplanement (air passenger arrivals) declined by 8.5% from FY2010 due to the declining trend of passenger arrivals to the CNMI.

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION

	Revenue Tons		
Saipan	**Inbound**	**Outbound**	**Total**
FY 2009	316,883	21,997	338,880
FY 2010	340,040	16,588	356,628
FY 2011	340,472	13,901	354,373
Rota			
FY 2009	7,566	2,291	9,857
FY 2010	11,476	323	11,799
FY 2011	7,490	1,487	8,977
Tinian			
FY 2009	15,979	736	16,715
FY 2010	11,978	2,926	14,904
FY 2011	14,220	1,237	15,457
All Seaports			
FY 2009	340,428	25,024	365,452
FY 2010	363,494	19,837	383,331
FY 2011	362,182	16,625	378,807

In FY2011, seaport inbound cargo decreased by less than 1% and outbound cargo decreased by 16.2% for all seaports from FY2010 due to the general recession of economic activity.

ECONOMIC OUTLOOK

The CPA 2012 combined revenue forecast indicates a substantial increase of $1,017,905 or about 6% from $17,227,822 for 2011. The Airport aviation traffic for 2012 is forecasted to increase substantially due to new airlines serving the CNMI plus an increase in the volume of charter flights primarily from China. The Seaport gross revenue tons for 2012 is forecasted to be slightly less than the 2011 level. Overall, Seaport revenues are projected to be about 5% less than the amounts in 2011. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain a level to comply with their respective Bond Indentures. Due to the global economy, management does not believe any increases to the tariff can be absorbed. Strict monitoring of operating expenses is the most practical approach toward achieving bond compliance.

CONTACTING CPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide the branches of the CNMI Government and the public at large with a general overview of CPA's finances and to demonstrate its accountability for the monies received. The Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of CPA's financial statements, which is dated August 5, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about this report or the 2010 or 2009 reports or need additional financial information, contact Ms. MaryAnn Q. Lizama, Acting Executive Director, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at cpa.mqlizama@pticom.com.

COMMONWEALTH PORTS AUTHORITY
Statements of Net Assets

September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash	$ 7,415,151	$ 5,678,533
Receivables:		
Grantor agencies	1,403,682	5,169,090
Operations, net	2,566,363	2,786,832
Related party, net	1,888,220	2,184,929
Officers and employees	5,894	15,335
Prepaid expenses	127,103	75,321
Investments, restricted for debt service and other purposes	16,575,666	15,394,649
Total current assets	29,982,079	31,304,689
Noncurrent assets:		
Deferred bond issue costs	1,260,492	1,327,427
Receivable from related party, net	678,641	1,691,084
Capital assets, net	192,704,707	195,240,319
Total noncurrent assets	194,643,840	198,258,830
	$ 224,625,919	$ 229,563,519
LIABILITIES AND NET ASSETS		
Current liabilities:		
Revenue bonds payable, current portion	$ 1,580,000	$ 1,485,000
Note payable to related party, current portion	240,110	236,814
Contractors payable	2,895,754	6,260,342
Trade and other payables	71,536	331,800
Due to related parties	1,838,963	1,743,912
Accrued expenses	2,584,947	2,436,667
Deferred income	20,926	20,601
Compensated absences, current portion	250,379	213,228
Total current liabilities	9,482,615	12,728,364
Accrued interest payable	546,679	546,679
Compensated absences, net of current portion	310,352	333,123
Revenue bonds payable, net of current portion	44,509,954	46,046,522
Note payable to related party, net of current portion	5,246,621	5,484,226
Total liabilities	60,096,221	65,138,914
Commitment and contingencies		
Net assets:		
Invested in capital assets, net of related debt	141,128,022	141,987,757
Restricted	16,575,666	15,394,649
Unrestricted	6,826,010	7,042,199
Total net assets	164,529,698	164,424,605
	$ 224,625,919	$ 229,563,519

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Aviation fees	$ 5,860,195	$ 6,179,933
Seaport fees	4,678,482	4,844,641
Concession and lease income	4,739,038	4,707,191
Other	1,950,107	1,737,542
	17,227,822	17,469,307
Less bad debts	(877,904)	(623,954)
Operating revenues, net	16,349,918	16,845,353
Operating expenses:		
Depreciation and amortization	11,405,674	11,675,296
Salaries and wages	5,162,621	5,633,462
Employee benefits	1,596,913	1,649,529
Insurance	1,446,929	1,623,922
Utilities	960,430	787,129
Contractual services	882,194	1,446,401
Repairs and maintenance	347,154	303,071
Professional fees	286,149	222,816
Supplies	222,821	448,214
Training	193,640	54,445
Travel	73,313	72,585
Promotion and advertising	44,081	36,632
Other	733,527	652,144
Total operating expenses	23,355,446	24,605,646
Operating loss	(7,005,528)	(7,760,293)
Non-operating revenues (expenses):		
Passenger facility charges	1,412,330	1,558,602
Interest income	498,247	528,382
Other grant revenues and contributions	1,661,491	4,612,402
Standby costs	(1,438,724)	(4,469,631)
Interest expense	(3,244,589)	(3,485,643)
Other expense	-	(176,490)
Amortization of bond issue costs	(66,935)	(66,935)
Total non-operating revenues (expenses), net	(1,178,180)	(1,499,313)
Loss before capital contributions	(8,183,708)	(9,259,606)
Capital contributions	8,288,801	13,621,618
Change in net assets	105,093	4,362,012
Net assets at beginning of year	164,424,605	160,062,593
Net assets at end of year	$ 164,529,698	$ 164,424,605

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from customers	$ 17,831,829	$ 18,866,580
Cash payments to suppliers for goods and services	(6,583,025)	(10,669,869)
Cash payments to employees for services	(6,745,156)	(7,249,528)
Net cash provided by operating activities	4,503,648	947,183
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	1,661,491	4,612,402
Net cash provided by noncapital financing activity	1,661,491	4,612,402
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,234,650)	(12,591,383)
Capital and other contributions received	11,997,035	11,511,754
Passenger facility charge receipts	1,412,330	1,558,602
Principal paid on revenue bond maturities	(1,485,000)	(1,395,000)
Payments on note payable to related party	(234,309)	(82,570)
Interest paid on revenue bonds and note payable to related party	(3,201,157)	(3,345,617)
Net cash used for capital and related financing activities	(3,745,751)	(4,344,214)
Cash flows from investing activities:		
Net investment (purchases) liquidatations, restricted	(1,181,017)	611,363
Interest income	498,247	528,382
Net cash (used for) provided by investing activities	(682,770)	1,139,745
Net change in cash	1,736,618	2,355,116
Cash at beginning of year	5,678,533	3,323,417
Cash at end of year	$ 7,415,151	$ 5,678,533
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (7,005,528)	$ (7,760,293)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	11,405,674	11,675,296
Bad debts	877,904	623,954
Other expense	(1,438,724)	(4,646,121)
(Increase) decrease in assets:		
Receivables - operations	181,990	528,626
Receivables - officers and employees	9,441	(2,923)
Prepaid expenses	(51,782)	9,991
Receivables - related parties	526,901	325,704
Increase (decrease) in liabilities:		
Accounts payable - trade and other	(260,264)	132,163
Accounts payable - related parties	95,051	(140,649)
Accrued expenses	148,280	147,371
Deferred income	325	20,601
Compensated absences	14,380	33,463
Net cash provided by operating activities	$ 4,503,648	$ 947,183

See accompanying notes to financial statements.

(1) Organization

The Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was established as a public corporation by CNMI Public Law 2-48, effective November 8, 1981. CPA was given responsibility for operations, maintenance and improvement of all airports and seaports within the CNMI. Both airports and seaports currently exist on the islands of Saipan, Tinian and Rota. CPA is governed by a seven-member Board of Directors, appointed for terms of four years by the Governor of the CNMI.

(2) Summary of Significant Accounting Policies

The accounting policies of CPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. CPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Budgets

In accordance with CNMI Public Law 3-68, the Planning and Budgeting Act of 1983, CPA is required to submit annual budgets to the CNMI Office of the Governor.

Concentrations of Credit Risk

Financial instruments which potentially subject CPA to concentrations of credit risk consist principally of cash demand deposits, investments, receivables and receivables from related party.

At September 30, 2011 and 2010, CPA has cash deposits and investments in bank accounts that exceed federal depository insurance limits. CPA has not experienced any losses on such accounts.

As of September 30, 2011 and 2010, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 63% and 44%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash

For the purposes of the statements of net assets and the statements of cash flows, cash is defined as cash on hand, demand deposits and savings. Short-term investment accounts established and set aside for construction and debt service purposes are separately classified as investments in the accompanying financial statements.

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. No eligible interest was capitalized during the years ended September 30, 2011 and 2010 as management did not consider the amounts material to the accompanying financial statements. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

CPA values its investments based on fair values in accordance with GASB Statement No. 31. CNMI Public Law 2-48, Section 31, requires that all CPA investments be guaranteed by the CNMI Government or U.S. Government, or be invested in direct obligations, or participation certificates, guaranteed by the U.S. Government.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense. Bad debts are written-off against the allowance based on the specific identification method.

Capital Assets

Property, plant and equipment and construction-in-progress are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets. CPA's current policy is to capitalize items with costs in excess of $1,000.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the related bond using the straight-line method. Bonds payable are reported net of bond discounts. Bond issuance costs are reported as deferred charges.

Passenger Facility Charges

Passenger Facility Charges (PFCs) generate revenue to be expended by CPA for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC revenues are recorded as nonoperating income in the statements of revenues, expenses and changes in net assets.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

CPA contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan (the Plan) established and administered by the Fund, and a defined contribution plan (DC Plan).

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. CPA has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. It is the understanding of the management of CPA that the statutorial determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and CPA management was unable to obtain this information from the Fund financial report. CPA management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of CPA that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal years ended September 30, 2011 and 2010 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2011 and 2010 is 37.3909% of covered payroll. CPA's recorded DB contributions to the Fund for the years ended September 30, 2011, 2010 and 2009 were $1,397,274, $1,435,790 and $1,474,731, respectively, equal to the required statutory contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CPA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CPA's recorded DC contributions for the years ended September 30, 2011, 2010 and 2009 were $57,063, $49,888 and $39,374, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires CPA to establish net asset categories as follows:

- Invested in capital assets net of related debt; capital assets, net of accumulated depreciation, plus deferred bond issuance cost, less outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  - Nonexpendable - Net assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2011 and 2010, CPA does not have nonexpendable restricted net assets.

  - Expendable - Net assets whose use by CPA is subject to externally imposed stipulations that can be fulfilled by actions of CPA pursuant to those stipulations or that expire by the passage of time.

- Unrestricted; Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2011 and 2010 is $560,731 and $546,351, respectively.

(2) Summary of Significant Accounting Policies, Continued

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of all airports and seaports within the CNMI. Non-operating revenues and expenses result from capital, financing and investing activities, Passenger Facility Charges and certain recurring income and costs.

New Accounting Standards

During fiscal year 2011, CPA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, *which* is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2010 balances in the accompanying financial statements have been reclassified to conform to the 2011 presentation.

(3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Deposits

As of September 30, 2011 and 2010, total cash was $7,415,151 and $5,678,533, respectively, and the corresponding bank balances were $7,535,898 and $5,716,888, respectively. All of the bank balance amounts are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Investments in U.S. Treasury obligations restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds. These investments are summarized as follows:

	2011	2010
Airport Division		
Bond Reserve Fund	$ 1,575,062	$ 1,568,337
Bond Fund	378,165	360,606
Maintenance and Operation	1,598,442	858,474
Revenue Fund	724	724
Optional Redemption Fund	12,100	12,100
	3,564,493	2,800,241
Seaport Division		
Bond Reserve Fund	3,479,616	3,479,556
Supplemental Reserve Fund	8,034,239	8,034,239
Reimbursement Fund	5,807	5,807
Bond Fund	712,475	682,368
Maintenance and Operation	771,047	382,751
Construction Fund	7,178	8,876
Revenue Fund	811	811
	13,011,173	12,594,408
	$ 16,575,666	$ 15,394,649

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with CPA's investment policy.

(3) Deposits and Investments, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. CPA's investment policy limits investment maturities to one year to manage its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2011 and 2010, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2011 and 2010, investments at fair value consist of investments in U.S. Government money market placements and mutual funds.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2011 and 2010, are as follows:

	2011	2010
U.S. Department of Transportation	$ 1,176,606	$ 4,596,092
U.S. Department of Homeland Security	148,147	432,468
U.S. Department of the Interior - passed through from the CNMI Government	47,259	128,368
Other	31,670	12,162
	$ 1,403,682	$ 5,169,090

Amounts due from the above agencies represent reimbursements due under grants for costs incurred for improvements of the CNMI airports and public assistance. Generally, under the grant agreements, the grantor agency funds a portion of the allowable costs incurred, ranging from 80% to 100%, with the remainder of project costs, if any, funded by CPA or other sources. Capital contributions amounting to $8,288,801 and $13,621,618 and operating grants amounting to $1,661,491 and $4,612,402 were received from grantor agencies during the years ended September 30, 2011 and 2010, respectively.

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States, China and Korea. CPA's accounts receivable from operations as of September 30, 2011 and 2010, are as follows:

	2011	2010
Accounts receivable	$ 4,083,337	$ 4,350,501
Less allowance for doubtful accounts	(1,516,974)	(1,563,669)
	$ 2,566,363	$ 2,786,832

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2011 and 2010:

	Estimated Useful Lives	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011
Assets not being depreciated:					
Construction in progress		$ 38,821,852	$ 8,683,275	$ (663,415)	$ 46,841,712
Land		464,429	-	-	464,429
Total capital assets not being depreciated		39,286,281	8,683,275	(663,415)	47,306,141
Capital assets being depreciated:					
Runway and improvements	20 years	96,118,668	11,943	(5,501)	96,125,110
Other improvements	3 - 10 years	26,129,646	429,460	-	26,559,106
Terminal facilities	20 years	93,515,427	269,382	-	93,784,809
Terminal equipment	2 - 10 years	10,723,151	62,026	(28,700)	10,756,477
Harbor facilities	20 years	63,635,195	-	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	509,692	1,755	-	511,447
Fire and rescue equipment	2 - 8 years	11,521,619	5,706	-	11,527,325
Office furniture and fixtures	2 - 10 years	1,038,691	59,520	-	1,098,211
General transportation	3 - 5 years	1,047,265	44,611	-	1,091,876
Other	3 - 5 years	2,394,909	-	-	2,394,909
		306,634,263	884,403	(34,201)	307,484,465
Less accumulated depreciation		(150,680,225)	(11,405,674)	-	(162,085,899)
Total capital assets being depreciated		155,954,038	(10,521,271)	(34,201)	145,398,566
Total capital assets, net		$ 195,240,319	$ (1,837,996)	$ (697,616)	$ 192,704,707

	Estimated Useful Lives	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010
Assets not being depreciated:					
Construction in progress		$ 28,573,693	$ 15,074,109	$ (4,825,950)	$ 38,821,852
Land		464,429	-	-	464,429
Total capital assets not being depreciated		29,038,122	15,074,109	(4,825,950)	39,286,281
Capital assets being depreciated:					
Runway and improvements	20 years	92,032,286	4,086,382	-	96,118,668
Other improvements	3 - 10 years	25,396,866	732,780	-	26,129,646
Terminal facilities	20 years	93,489,099	26,328	-	93,515,427
Terminal equipment	2 - 10 years	10,430,949	292,202	-	10,723,151
Harbor facilities	20 years	63,626,755	8,440	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	509,692	-	-	509,692
Fire and rescue equipment	2 - 8 years	11,521,619	-	-	11,521,619
Office furniture and fixtures	2 - 10 years	997,181	41,510	-	1,038,691
General transportation	3 - 5 years	1,044,811	24,999	(22,545)	1,047,265
Other	3 - 5 years	2,394,591	318	-	2,394,909
		301,443,849	5,212,959	(22,545)	306,634,263
Less accumulated depreciation		(139,026,978)	(11,675,296)	22,049	(150,680,225)
Total capital assets being depreciated		162,416,871	(6,462,337)	(496)	155,954,038
Total capital assets, net		$ 191,454,993	$ 8,611,772	$ (4,826,446)	$ 195,240,319

(6) Capital Assets, Continued

CPA leases significant portions of airport terminal facilities and certain grounds and improvements to concessionaires, airlines, and other lessees. CPA additionally holds title to 13,646,163 square meters of land on the islands of Saipan, Tinian and Rota for seaport and airport operations. No value for this land has been recorded on CPA's books as an appraisal has not been performed.

Land acquired by CPA on the islands of Saipan and Rota from the former Marianas Public Land Corporation for seaport improvement and use has been recorded on CPA's books at its estimated fair market value. This estimated value is based on a land valuation established by Article VIII of the Marianas Political Status Commission as contained in the Section-by-Section Analysis of the Covenant to Establish a Commonwealth of the Northern Mariana Islands, dated February 15, 1975, for land of a similar nature leased by the CNMI to the U.S. Government.

(7) Revenue Bonds Payable

Airport Division

On March 26, 1998, CPA issued $20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of $8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments. Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2012 and 2028 are listed below.	$ 14,460,000	$ 14,930,000
Current portion	505,000	470,000
Long-term portion	$ 13,955,000	$ 14,460,000

Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Series A, Airport Revenue Bonds, are due on March 15.

Principal and interest payments for subsequent years ending September 30, are as follows:

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Year ending September 30,	Principal	Interest	Total
2012	$ 505,000	$ 887,969	$ 1,392,969
2013	530,000	855,625	1,385,625
2014	565,000	821,406	1,386,406
2015	600,000	785,000	1,385,000
2016	640,000	746,250	1,386,250
2017 - 2021	3,845,000	3,059,219	6,904,219
2022 - 2026	5,205,000	1,655,782	6,860,782
2027 - 2028	2,570,000	163,125	2,733,125
	$ 14,460,000	$ 8,974,376	$ 23,434,376

Seaport Division

On March 26, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

On September 21, 2005, CPA issued $7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2011 and 2010, consist of the following:

	2011	2010
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2012 and 2028 are listed below.	$ 26,060,000	$ 26,900,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2012 and 2031 are listed below.	6,580,000	6,755,000

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

	2011	2010
Deferred costs of debt refunding on 1998 Senior Series A bonds	(914,454)	(953,106)
Discount on 2005 Senior Series A bonds	(95,592)	(100,372)
	31,629,954	32,601,522
Current portion	1,075,000	1,015,000
Long-term portion	$ 30,554,954	$ 31,586,522

Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Senior Series A and the 2005 Senior Series A, Special Revenue Bonds, are due on March 15.

Principal and interest payments for subsequent years ending September 30, are as follows:

Year ending September 30,	Principal	Interest	Total
2012	$ 1,075,000	$ 2,047,402	$ 3,122,402
2013	1,145,000	1,976,233	3,121,233
2014	1,215,000	1,900,552	3,115,552
2015	1,295,000	1,820,060	3,115,060
2016	1,370,000	1,734,590	3,104,590
2017 - 2021	8,285,000	7,189,023	15,474,023
2022 - 2026	11,220,000	4,080,560	15,300,560
2027 - 2031	7,035,000	652,575	7,687,575
	$ 32,640,000	$ 21,400,995	$ 54,040,995

Additionally, CPA has resolved to hold $8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2011 and 2010, total deposits in the Seaport supplemental reserve fund amounted to $8,034,239.

Bond Redemption

In accordance with the Airport and Seaport Bond Indenture Agreements, Section 4.01, terms of redemption of the 1998 Senior Series A Bonds are as follows:

a) Optional redemption - The 1998 Senior Bonds for the airport are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any Interest Payment Date and by lot within a maturity, at the Redemption Prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

Redemption Dates	Redemption Prices
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

The option may only be exercised by depositing with the Trustee, prior to giving notice of such redemption in accordance with Section 4.03, moneys or Investment Securities sufficient in amount and maturing in a timely manner to provide for such redemption including moneys or Investment Securities sufficient to pay the premium upon such optional redemption if any. CPA shall notify the Trustee in writing at least 60 days prior to the date to be fixed for redemption of its intention to exercise its redemption option and specifying the amount and the maturities of the bonds to be redeemed and, if appropriate, the Mandatory Sinking Accounts Payments to which the bonds redeemed are to be allocated.

The 1998 Senior Bonds for the seaport are not subject to optional redemption prior to their stated maturity.

b) Mandatory redemption - The 1998 Senior Bonds for the airport and seaport are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the Project or after three years from the date of issuance of the 1998 Senior Bonds, from moneys transferred from the 1998 Series A Account within the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to 100% of the principal amount of such 1998 Senior Bonds to be redeemed plus accrued interest, if any, to the date fixed for redemption, without premium.

c) Insurance or condemnation award - At the option of CPA, prior to their stated maturity as a whole or in part by lot, the 1998 Senior Bonds for the airport and seaport are subject to redemption from the proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA’s airport and seaport facilities, if such proceeds are not used to repair or replace such facilities under the circumstances and upon the conditions prescribed in Section 6.17 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

d) Mandatory sinking account - The 1998 Senior Bonds for the airport and seaport are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

In accordance with the Second Supplemental Indenture of the Seaport Bond Indenture Agreement, Section 15.03, terms of redemption of the 2005 Senior Series A Bonds are as follows:

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

a) Optional redemption - The 2005 Senior Series A Bonds maturing on or after March 15, 2016 are subject to redemption prior to their respective stated maturities, at the option of CPA, from lawfully available funds deposited in the Optional Redemption Fund, as a whole or in part on any date on or after March 15, 2015, at the following respective redemption prices (expressed as percentages of the principal amount of the 2005 Bonds to be redeemed) plus accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
March 15, 2015 through March 14, 2016	101.0%
March 15, 2016 through March 14, 2017	100.5%
March 15, 2017 and thereafter	100.0%

b) Mandatory redemption - The 2005 Senior Series A Bonds are subject to mandatory redemption upon notice of completion of the 2005 Project (purchase, acquisition, construction/reconstruction, repair, renovation, improvement, certain capital improvements or expansion of CPA's seaports) or after three years from the date of issuance of the 2005 Senior Series A Bonds from moneys transferred from the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

c) Insurance or condemnation award - At the option of CPA and prior to their stated maturity, the 2005 Senior Series A Bonds are subject to redemption from proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's seaport facilities, if such proceeds are not used to repair or replace such facilities, under the circumstances and upon the conditions prescribed in Section 6.17 of the bond indenture, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

d) Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

Pledge of Future Revenues

CPA has pledged future gross revenues to repay $20,050,000 and $33,775,000 in 1998 Senior Series A and $7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are $77,475,372 and $81,993,202 at September 30, 2011 and 2010, respectively. Pledged gross revenues received during the years ended September 30, 2011 and 2010 were $17,227,822 and $17,469,307, respectively. Debt service payments during the years ended September 30, 2011 and 2010 amounted to $4,517,830 and $4,519,399 representing 27% and 26%, respectively, of pledged gross revenues.

(7) Revenue Bonds Payable, Continued

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2011 and 2010. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements. Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the indenture requirements. For fiscal years 2011 and 2010, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes.

Changes in long-term liabilities for the years ended September 30, 2011 and 2010, are as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 14,930,000	$ -	$ (470,000)	$ 14,460,000	$ 505,000
Seaport 1998 Senior Series A	26,900,000	-	(840,000)	26,060,000	890,000
Seaport 2005 Senior Series A	6,755,000	-	(175,000)	6,580,000	185,000
Note payable	5,721,040	-	(234,309)	5,486,731	240,110
Deferred amounts:					
Deferred costs of debt refunding	(953,106)	-	38,652	(914,454)	-
Discount on bonds	(100,372)	-	4,780	(95,592)	-
	53,252,562	-	(1,675,877)	51,576,685	1,820,110
Other:					
Compensated absences	546,351	427,543	(413,163)	560,731	250,379
Accrued interest	546,679	125,934	(125,934)	546,679	-
	$ 54,345,592	$ 553,477	$ (2,214,974)	$ 52,684,095	$ 2,070,489

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 15,375,000	$ -	$ (445,000)	$ 14,930,000	$ 470,000
Seaport 1998 Senior Series A	27,685,000	-	(785,000)	26,900,000	840,000
Seaport 2005 Senior Series A	6,920,000	-	(165,000)	6,755,000	175,000
Note payable	5,803,610	-	(82,570)	5,721,040	236,814
Deferred amounts:					
Deferred costs of debt refunding	(991,758)	-	38,652	(953,106)	-
Discount on bonds	(105,152)	-	4,780	(100,372)	-
	54,686,700	-	(1,434,138)	53,252,562	1,721,814
Other:					
Compensated absences	512,888	383,188	(349,725)	546,351	213,228
Accrued interest	450,085	229,681	(133,087)	546,679	-
	$ 55,649,673	$ 612,869	$ (1,916,950)	$ 54,345,592	$ 1,935,042

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2011	2010
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements.	$ 5,486,731	$ 5,721,040
Current portion	240,110	236,814
Long-term portion	$ 5,246,621	$ 5,484,226

The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

Principal and interest payments for subsequent years ending September 30, are as follows:

Year ending September 30,	Principal	Interest	Total
2012	$ 240,110	$ 134,395	$ 374,505
2013	243,613	128,387	372,000
2014	249,774	122,226	372,000
2015	256,090	115,910	372,000
2016	262,566	109,434	372,000
2017 - 2021	1,415,853	444,147	1,860,000
2022 - 2026	1,604,163	255,837	1,860,000
2027 - 2030	1,214,562	600,232	1,814,794
	$ 5,486,731	$ 1,910,568	$ 7,397,299

(9) Risk Management

CPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPA has elected to purchase commercial insurance from independent third parties for the risks of losses at its airport facilities to which it is exposed. CPA has also elected to purchase partial commercial insurance from independent third parties for risk of losses at its seaport facilities to which it is exposed. Settled claims have not exceeded this commercial insurance coverage during the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2011 and 2010, and the related receivable and payable balances, are as follows:

	2011			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 125,934	$ -	$ -
Commonwealth Utilities Corporation	429,551	960,430	2,566,861	-
CNMI Government	304,337	120,252	-	1,838,963
Northern Mariana Islands Retirement Fund	-	1,454,337	-	-
	$ 733,888	$ 2,660,953	$ 2,566,861	$ 1,838,963

	2010			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 133,087	$ -	$ -
Commonwealth Utilities Corporation	458,593	787,129	3,876,013	-
CNMI Government	135,201	120,857	-	1,718,711
Northern Mariana Islands Retirement Fund	-	1,485,678	-	25,201
	$ 593,794	$ 2,526,751	$ 3,876,013	$ 1,743,912

A note payable to CDA amounted to $5,486,731 and $5,721,040 at September 30, 2011 and 2010, respectively. Interest expense on this note for the years ended September 30, 2011 and 2010 amounted to $125,934 and $133,087, respectively.

CPA and the Commonwealth Utilities Corporation (CUC) have entered into Memorandums of Agreement (MOAs) specifying terms and conditions of the construction of a Sewerline Project. CPA, as signatory party to the project contract, made all payments on the project. CUC has agreed to reimburse CPA $4,700,947 of project costs. In accordance with the MOAs, CUC shall make installments payments over a term not to exceed five years, commencing on July 1, 2008, with interest at 6.25%. CPA has the right of offset/credit utility charges in lieu of payments. The offset/credit procedure shall terminate when CUC begins actual payments on the amount owed or total offset/credits equal the principal amount. On June 30, 2008, CPA and CUC entered into an amended and superseding MOA for the repayment of wharfage fees due to CPA amounting to $3,385,131 with interest at 6.25%. In accordance with the MOA, CPA has the right to offset utility charges at the Port of Saipan and other ancillary accounts against the receivable from CUC beginning July 1, 2008. Total utility charges offset during the years ended September 30, 2011 and 2010 amounted to $957,388 and $784,297, respectively. CPA is currently disputing charges totaling $782,251 that CUC has billed and applied against its payable to CPA. Accordingly, at September 30, 2011 and 2010, CPA has provided an allowance totaling $782,251 and $-0- for the disputed balance. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for. At September 30, 2011 and 2010, the receivable from CUC amounted to $2,566,861 and $3,876,013, respectively.

CPA recorded contributions of $304,337 and $135,201 from the CNMI government during the years ended September 30, 2011 and 2010, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $1,838,963 and $1,718,711 at September 30, 2011 and 2010, respectively.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to forty-eight years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2011 and 2010, amounted to $4,739,038 and $4,707,191, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2012	$ 1,945,284
2013	1,786,269
2014	1,645,711
2015	1,323,739
2016	931,678
2017 - 2021	3,896,925
2022 - 2026	1,306,950
2027 - 2031	380,779
2032 - 2036	192,536
2037 - 2041	103,027
2042 - 2046	110,073
2047 - 2048	24,352
	$ 13,647,323

Contingencies

CPA incurred a combined loss before capital contributions from its two divisions of $8,183,708 and $9,259,606 during the years ended September 30, 2011 and 2010, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures.
b) Explore non-aviation revenue generating options.
c) Explore non-harbor revenue generating options.

Management believes that these efforts will be successful in reducing future losses of CPA.

CPA is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters will have a material adverse effect on CPA's financial position, change in net assets or cash flows.

(12) Major Customers

Aviation fees received by CPA are comprised of facility service charges and landing fees from air carriers providing scheduled flight service to CNMI airports, substantially all of which are located in the CNMI, Japan, United States, Russia, China and Korea. Seaport fees received by CPA are primarily comprised of wharfage fees on cargo from the CNMI, Japan, United States, the Philippines and other Asian countries. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire who is located in the CNMI.

During the years ended September 30, 2011 and 2010, three customers accounted for 59% and 61% of the total operating revenues of the Airport Division, and one customer accounted for 23% and 18% of the total operating revenues of the Seaport Division during the years ended September 30, 2011 and 2010, respectively.

(13) Typhoon Damages

During the year ended September 30, 2006, CPA received insurance proceeds relating to Typhoon Chaba damages. CPA recorded the proceeds as accrued expenses and expects to liquidate the accrual as typhoon repair costs are incurred. At September 30, 2011 and 2010, the remaining accrued expenses total $1,720,478, and accordingly, are included in accrued expenses in the accompanying financial statements.

(14) Standby Costs

On January 24, 2011, CPA and a contractor entered into a supplemental agreement for the payment of standby costs incurred by the contractor on a project totaling $5,908,354 covering the period from February 10, 2010 through December 14, 2010. The standby costs relate to equipment, labor and other indirect costs incurred by the contractor due to delays in the commencement of the project. During the years ended September 30, 2011 and 2010, CPA recorded standby costs totaling $1,438,724 and $4,469,631 of which $1,409,182 and $4,371,642, respectively, are federally funded and, accordingly, is included in other grant revenues and contributions in the accompanying financial statements.

(15) Subsequent Events

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

(15) Subsequent Events, Continued

In November 2012, the Fund sought guidance from the federal court relating to the legality of certain provisions authorized by Public Law 17-82 and ceased disbursement of employee contributions pending the federal court's guidance.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Assets
September 30, 2011

ASSETS	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	$ 4,898,564	$ 2,516,587	$ -	$ 7,415,151
Receivables:				
Grantor agencies	1,403,682	-	-	1,403,682
Operations, net	2,065,664	500,699	-	2,566,363
Related party, net	1,618,853	269,367	-	1,888,220
Due from Seaport Division	18,483	-	(18,483)	-
Officers and employees	2,865	3,029	-	5,894
Prepaid expenses	126,282	821	-	127,103
Investments, restricted for debt service and other purposes	3,564,493	13,011,173	-	16,575,666
Total current assets	13,698,886	16,301,676	(18,483)	29,982,079
Noncurrent assets:				
Deferred bond issue costs	448,254	812,238	-	1,260,492
Receivable from related party, net	678,641	-	-	678,641
Capital assets, net	149,179,704	43,525,003	-	192,704,707
Total noncurrent assets	150,306,599	44,337,241	-	194,643,840
	$ 164,005,485	$ 60,638,917	$ (18,483)	$ 224,625,919
LIABILITIES AND NET ASSETS				
Current liabilities:				
Revenue bonds payable, current portion	$ 505,000	$ 1,075,000	$ -	$ 1,580,000
Note payable to related party, current portion	-	240,110	-	240,110
Contractors payable	2,895,754	-	-	2,895,754
Trade and other payables	66,368	5,168	-	71,536
Due to related parties	1,569,581	269,382	-	1,838,963
Due to Airport Division	-	18,483	(18,483)	-
Accrued expenses	714,625	1,870,322	-	2,584,947
Deferred income	20,926	-	-	20,926
Compensated absences, current portion	228,570	21,809	-	250,379
Total current liabilities	6,000,824	3,500,274	(18,483)	9,482,615
Accrued interest payable	-	546,679	-	546,679
Compensated absences, net of current portion	277,118	33,234	-	310,352
Revenue bonds payable, net of current portion	13,955,000	30,554,954	-	44,509,954
Note payable to related party, net of current portion	-	5,246,621	-	5,246,621
Total liabilities	20,232,942	39,881,762	(18,483)	60,096,221
Net assets:				
Invested in capital assets, net of related debt	134,719,704	6,408,318	-	141,128,022
Restricted	3,564,493	13,011,173	-	16,575,666
Unrestricted	5,488,346	1,337,664	-	6,826,010
Total net assets	143,772,543	20,757,155	-	164,529,698
	$ 164,005,485	$ 60,638,917	$ (18,483)	$ 224,625,919

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2011

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	$ 5,860,195	$ -	$ -	$ 5,860,195
Seaport fees	-	4,678,482	-	4,678,482
Concession and lease income	3,669,423	1,069,615	-	4,739,038
Other	1,345,462	604,645	-	1,950,107
	10,875,080	6,352,742	-	17,227,822
Less bad debts	(820,730)	(57,174)	-	(877,904)
Operating revenues, net	10,054,350	6,295,568	-	16,349,918
Operating expenses:				
Depreciation and amortization	8,695,607	2,710,067	-	11,405,674
Salaries and wages	4,441,345	721,276	-	5,162,621
Employee benefits	1,409,593	187,320	-	1,596,913
Insurance	630,451	816,478	-	1,446,929
Utilities	854,999	105,431	-	960,430
Contractual services	698,045	184,149	-	882,194
Repairs and maintenance	317,839	29,315	-	347,154
Professional fees	280,746	5,403	-	286,149
Supplies	202,453	20,368	-	222,821
Training	193,640	-	-	193,640
Travel	44,361	28,952	-	73,313
Promotion and advertising	44,081	-	-	44,081
Other	693,673	39,854	-	733,527
Total operating expenses	18,506,833	4,848,613	-	23,355,446
Operating (loss) income	(8,452,483)	1,446,955	-	(7,005,528)
Non-operating revenues (expenses):				
Passenger facility charges	1,412,330	-	-	1,412,330
Interest income	235,341	262,906	-	498,247
Other grant revenues and contributions	1,661,491	-	-	1,661,491
Standby costs	(1,438,724)	-	-	(1,438,724)
Interest expense	(919,167)	(2,325,422)	-	(3,244,589)
Amortization of bond issue costs	(24,459)	(42,476)	-	(66,935)
Total non-operating revenues (expenses), net	926,812	(2,104,992)	-	(1,178,180)
Loss before capital contributions	(7,525,671)	(658,037)	-	(8,183,708)
Capital contributions	8,254,028	34,773	-	8,288,801
Change in net assets	728,357	(623,264)	-	105,093
Net assets at beginning of year	143,044,186	21,380,419	-	164,424,605
Net assets at end of year	$ 143,772,543	$ 20,757,155	$ -	$ 164,529,698

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2011

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	$ 11,705,542	$ 6,126,287	$ -	$ 17,831,829
Cash payments to suppliers for goods and services	(5,511,167)	(1,071,858)	-	(6,583,025)
Cash payments to employees for services	(5,838,493)	(906,663)	-	(6,745,156)
Net cash provided by operating activities	355,882	4,147,766	-	4,503,648
Cash flows from noncapital financing activity:				
Other grant revenues and contributions	1,661,491	-	-	1,661,491
Net cash provided by noncapital financing activity	1,661,491	-	-	1,661,491
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(12,171,081)	(63,569)	-	(12,234,650)
Capital and other contributions received	11,644,332	352,703	-	11,997,035
Passenger facility charge receipts	1,412,330	-	-	1,412,330
Principal paid on revenue bond maturities	(470,000)	(1,015,000)	-	(1,485,000)
Payments on note payable to related party	-	(234,309)	-	(234,309)
Interest paid on revenue bonds and note payable to related party	(919,167)	(2,281,990)	-	(3,201,157)
Net cash used for capital and related financing activities	(503,586)	(3,242,165)	-	(3,745,751)
Cash flows from investing activities:				
Net investment purchases, restricted	(764,252)	(416,765)	-	(1,181,017)
Interest income	235,341	262,906	-	498,247
Net cash used for investing activities	(528,911)	(153,859)	-	(682,770)
Net change in cash	984,876	751,742	-	1,736,618
Cash at beginning of year	3,913,688	1,764,845	-	5,678,533
Cash at end of year	$ 4,898,564	$ 2,516,587	$ -	$ 7,415,151
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (8,452,483)	$ 1,446,955	$ -	$ (7,005,528)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	8,695,607	2,710,067	-	11,405,674
Bad debts	820,730	57,174	-	877,904
Other expense	(1,438,724)	-	-	(1,438,724)
(Increase) decrease in assets:				
Receivables - operations	298,326	(116,336)	-	181,990
Interdivisional accounts	(114,649)	114,649	-	-
Receivables - officers and employees	9,441	-	-	9,441
Prepaid expenses	(50,961)	(821)	-	(51,782)
Receivables - related parties	637,019	(110,118)	-	526,901
Increase (decrease) in liabilities:				
Accounts payable - trade and other	(251,202)	(9,062)	-	(260,264)
Accounts payable - related parties	70,183	24,868	-	95,051
Accrued expenses	119,826	28,454	-	148,280
Deferred income	325	-	-	325
Compensated absences	12,444	1,936	-	14,380
Net cash provided by operating activities	$ 355,882	$ 4,147,766	$ -	$ 4,503,648

See Accompanying Independent Auditors' Report.